

CITY OF SAN DIEGO
OFFICE OF THE INDEPENDENT BUDGET ANALYST

MONTHLY SNAPSHOT OF REPORTS AND ACTIVITIES FOR SEPTEMBER 2012

Reports Highlighted for September 2012:

Report No. 12-37 (9/20/12)
“City of San Diego General
Fund Reserve Benchmark
and Review”

Report No. 12-39 (9/21/12)
“Capital Improvement Pro-
gram: Public Input and the
Need for a Multi-Year Plan”

Report No. 12-40 (9/21/12)
“Tourism Marketing District
District Management Plan”

Highlights of Major Reports Issued in September

Report 12-37 “City of San Diego General Fund Reserve Benchmark and Review”

The City of San Diego’s General Fund Reserve level is \$153.4 million or 13.3% of budgeted General Fund revenue for FY 2013. This is about \$61.3 million or 5.3% over the 8% minimum established by the City’s reserve policy. Report 12-37 examines San Diego’s reserve level and policy against similar municipalities and other available guidelines such as GFOA standards and credit rating agencies’ criteria. Our office also discusses potential effects of increasing, maintaining, or utilizing portions of the current General fund reserve level.

Although it is difficult to compare similar reserve levels between all cities for a variety of reasons, our office chose four cities to review based on similar population size, services provided, General Fund size, and the requirement that they have a formal reserve policy in place. From this comparison, our office determined that San Diego’s available reserve amount is higher than the four cities reviewed, and the 8% minimum reserve goal is higher than three, and slightly lower than one. When comparing the credit rating of these cities to San Diego, the City has a “high grade” rating from each agency, but is still the lowest credit rating of each municipality reviewed. However, San Diego’s credit rating has gradually risen in recent years after significant downgrades during the mid-2000’s due to the financial investigations the City was subject to and subsequent delay in financial reporting. A municipality’s credit rating is not only related to its reserve level and policies, but rather a compilation of factors that are reviewed to determine the overall confidence in a City’s ability to continue fiscal stability. For example, although San Diego is recognized to have a closely monitored budget and an appropriate debt load, the City’s required pension contributions and State of California budget and economic environment is a negative offsetting factor when agencies are determining credit ratings.

This report was presented to the Budget & Finance Committee (B&FC) on September 26, 2012. There was discussion of how any change in reserves may impact our credit rating and conversely effect the interest rates that we receive. Although any substantial decline in the reserve balance may negatively effect San Diego’s credit rating, we note that the continued uncertainty of circumstances in both the California economic environment and potential impacts from redevelopment dissolution and possible Proposition B implementation costs warrant a need for a continuation of the higher than policy minimum reserve level. On the subject of further increasing our reserves, an increased credit rating may not necessarily result from this action given the fiscal stability of California and other cities within it. Additionally, a large impact to the General Fund through any associated decrease in borrowing costs may not necessarily result from a higher credit rating, since we are already in a low interest rate environment.

Report 12-39 “Capital Improvement Program: Public Input and the Need for a Multi-Year Plan”

In Report 12-39 our office summarizes the public outreach efforts by the Public Works-Engineering & Capital Projects (E&CP) de-

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partment and discusses the need for optimal infrastructure planning through a multi-year plan. The outreach efforts by E&CP staff resulted from an expressed desire from the community and business groups to become more involved in identifying and prioritizing capital projects, and a request for enhanced communication from City staff and increased transparency of the CIP budget process. At the July 25, 2012 B&FC meeting, E&CP proposed that their outreach efforts be focused through the Community Planners Committee (CPC) since they are an established community planning structure whose role is to ensure communication and solicit citizen input on issues among the 42 Community Planning Groups (CPGs). E&CP staff initiated outreach to CPC regarding the public input process during summer of 2012, and will continue efforts through November 2012.

In this report, our office also stresses the importance of the development of a Citywide, Multi-year Capital Improvement Plan. Decisions made regarding the CIP are very important because capital improvement projects are generally large and expensive, and the assets they create will likely be required for decades of public use. With a multi-year plan, the City would have a strategy to address City infrastructure needs over a five (or more) year period, instead of on an annual basis. A multi-year plan also assists staff in long term financial planning for these multi-year infrastructure projects since capital projects often do not have a single source of funding, but rather multiple funding sources that may be disbursed at different times.

Many other cities use multi-year CIP plans, and although they differ in approach and the amount of years they span, San Diego can draw ideas from comparable municipalities on how to implement our own multi-year strategy. However, the City must acknowledge that it is in the beginning stages of initiating this goal, and many of the cities we reviewed in this report have been doing capital planning for many years. San Diego now has some elements in place for the development of a multi-year plan due to the ongoing efforts to improve and streamline the CIP process and City Council's approval of a five year deferred capital funding plan earlier this year. Our office recommends gradually building up to a multi-year plan by developing a "pilot" plan for FY 2014, and then for FY 2015 staff would be able to make recommendations for multi-year plan development, based on that experience.

When this item was heard at B&FC on September 26, 2012, there was considerable discussion in favor of San Diego making the move toward a Multi-year Capital Improvement Plan. Our office is working with E&CP and other City staff to identify next steps for developing this plan.

Report 12-40 "Tourism Marketing District District Management Plan"

This report highlights the major changes between the most recent Tourism Marketing District (TMD) District Management Plan and the proposed Management Plan that was before Council on September 25, 2012. The new plan proposed the boundaries of the new district, the number of years for which assessments are to be levied, set forth changes in assessments for the years of operation of the district, and expanded the number of businesses assessed. Main differences between the new plan and the 2007 plan include:

- **Assessed Businesses:** With the new plan, all lodging establishments within the City will be part of the renewed TMD as opposed to only lodging businesses with 70+ sleeping rooms.
- **Benefit Categories:** The new plan establishes two benefit categories. Category A includes businesses with 30+ rooms which will provide *direct* marketing and sales, and Category B includes all businesses, which will provide *general* marketing and sales.
- **Assessments Levied:** Lodging with 30+ rooms will be assessed 2% and lodging with less than 30 rooms will be assessed 0.55%.
- **Term of District:** The new plan increases the 10 year term for the TMD to a 40 year term. This was intended to support long-term planning by the TMD, especially in anticipation of the San Diego Convention

Center expansion.

- **Fundable Activities:** All TMD funding recipients are required to have additional funding sources other than TMD assessments. Language was added stating that political candidate or ballot initiative activity may not use TMD funding and that no bonds shall be issued by the TMD. However, the new plan does not specifically exclude the use of TMD assessments for the payment of debt service. We recommended in this report that the Council may wish to request further guidance regarding this matter with the City Attorney's Office.
- **Budget Guidelines:** The new plan proposed 90% of funds be designated for marketing and sales activities, and 10% for administration and the Reserve.

The oversight of the District Management Plan, futures changes to the TMD, and procedures for the disestablishment of the TMD are also addressed.

At the September 25, 2012 City Council meeting, the City Council voted 7-1 to adopt a resolution to declare the intention to renew the San Diego TMD and associated assessment. On October 23, 2012 public testimony took place regarding the establishment of the district. At the proposed public hearing date, November 26, 2012, additional public testimony will be taken, ballots counted, and in the absence of a majority protest, an authorization of an operating agreement between the City and the TMD Corporation will take place.

"A Citizen's Guide to the Capital Improvement Program (CIP)"

Prompted by community concerns for increased public input and transparency of the City's Capital Improvement Program (CIP) and its budget process, our office developed this citizen's guide. The guide aims to provide a solid foundation of knowledge on the CIP for interested citizens and community groups by including an explanation of the CIP budget process, common funding sources, project types, identification and prioritization of projects, and resources for the public. We produced both a detailed, full version of the guide, and a shorter "Quick Look" version that highlights keys to understanding the CIP.

Other Reports Issued in September 2012:

Report No. 12-34 (9/12/12)

Attachment 1 (9/12/12)

Attachment 2 (9/12/12)

Attachment 3 (9/12/12)

"Response to Grand Jury Report Titled 'City of San Diego 2010 Redistricting Commission'"

Report No. 12-35 (9/13/12)

Attachment 1 (9/13/12)

"Authorization of Spreckels Organ Pavilion Public Parking Garage Lease Revenue Bonds"

Report No. 12-36 (9/13/12)

Attachment 1 (9/13/12)

"Golf Course Business Plan"

Report No. 12-38 (9/19/12)

"Preliminary Statement of Work for Storm Water Facilities Operations & Maintenance"

Report No. 12-41 (9/28/12)

Attachment 1 (9/28/12)

Attachment 2 (9/28/12)

Attachment 3 (9/28/12)

"Convention Center Phase III Expansion: Plan of Finance and Related Actions"
